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**THESIS**

**THE EFFECTS OF DEPARTMENT OF DEFENSE  
ACQUISITION REFORM ON WOMEN-OWNED SMALL  
BUSINESSES AND SMALL DISADVANTAGED  
BUSINESSES**

by

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**THE EFFECTS OF DEPARTMENT OF DEFENSE ACQUISITION REFORM ON  
WOMEN-OWNED SMALL BUSINESSES AND SMALL DISADVANTAGED  
BUSINESSES**

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Submitted in partial fulfillment of the  
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## **ABSTRACT**

This study examines the effects of acquisition reform on Women-Owned Small Businesses (WOSBs) and Small Disadvantaged Businesses (SDBs) who contracted with DOD during the 1990s through 2002 timeframe. Review and analysis of DOD data for fiscal years 1992 through 2002, an analysis of websites and acquisition literature, and interviews with DOD contracting and small business specialists provided the basis for this study.

It identifies acquisition reform legislation enacted in the 1990s that has had a direct impact on WOSBs and SDBs and examines the charge that the practice of contract bundling has negatively impacted the ability of small businesses to win DOD contracts. An analysis of contract bundling data from the Small Business Office of Advocacy, Congress and DOD demonstrates that the data is insufficient and inconsistent to prove or disprove that contract bundling is negatively impacting small businesses. However, DOD data for fiscal years 1992 through 2002 indicates that DOD contracting with WOSBs improved consistently, particularly after enactment of the Federal Acquisition Streamlining Act (FASA) of 1994, which mandated that the federal government, inclusive of DOD, award five percent of total yearly procurement dollars to WOSBs.

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## **I. INTRODUCTION**

### **A. BACKGROUND**

Small businesses represent an important part of our country's industrial base and are therefore vital to our national economy. Because over 50 percent of the American business base consists of small businesses (Ref. 1), the Department of Defense (DOD) is in a unique position to capitalize on the resources offered by these businesses.

Beginning with the Armed Services Procurement Act of 1947, federal laws were enacted to provide assistance to small businesses to help them obtain a "fair" portion of total federal purchases and contracts. Congress chose this course of action because elected officials realized at that time that without legislation, large businesses would continue to win most of the government contracts over small businesses. (Ref. 2)

In 1953, Congress passed the Small Business Act which established the Small Business Administration (SBA) as an independent agency within the Executive Branch of the government to further assist small businesses to win federal contracts. This act required federal agencies to report procurement details to the Commerce Business Daily for procurements over the small business dollar threshold, and required new subcontracting clauses to be added to procurement contracts as well.

According to the Small Business Act, the core of the American economic system of private enterprise is free competition. The Act further states that this competition is basic not only to the economic health of the United

States but to its security as well. Unless small business is encouraged and developed, the economic and security needs of the nation will not be fully realized. (Ref. 3)

The federal government defines a small business concern as one which is independently owned and operated but does not dominate in its field of expertise. The number of employees and a yearly dollar volume apply to the government's definition of a small business as well. A small women-owned business is one in which a woman owns 51 percent of the business. A small disadvantaged business is one in which at least 51 percent of the business is owned by one or more socially and economically disadvantaged individuals. (Ref. 4)

Small businesses have been participating in the DOD procurement world for many years. Each year the various departments of the federal government are assigned congressionally-mandated small business procurement goals. DOD's congressionally-mandated yearly goal is to award at least 5 percent of all contracts to small businesses, including small disadvantaged businesses and women-owned small businesses. DOD partners with the Small Business Administration (SBA) to meet these yearly small business goals. (Ref. 1)

During the 1980's and 1990's, federal and DOD procurement policies changed significantly. The most important of those changes resulted from the Competition in Contracting Act (1984), the 1993 National Performance Review, the Federal Acquisition Streamlining Act (1994), the Clinger-Cohen Act of 1996, also known as the Federal

Acquisition Reform Act, the 1997 Defense Management Initiative and the Federal Acquisition Regulation (FAR), Part 12, Commercial Acquisition, January 2002.

These policy changes and acquisition reforms will be discussed in this thesis from the perspective of their impact on small women-owned businesses and small disadvantaged businesses.

Research indicates that women-owned small businesses have not been receiving their fair share of DOD contracts. Fair share refers to the federally mandated DOD yearly goal of awarding five percent of all contracts to women-owned small businesses. (Ref. 5) In the year 2000, DOD awarded only two percent of all contracts to these types of businesses. (Ref. 6)

There are certain barriers which may hinder small business participation in DOD procurement. Acquisition reform has attempted to overcome some of these barriers, but some new barriers have appeared, most importantly, contract bundling. Contract bundling involves organizing similar buys into one large contract which could exclude the small business contractor.

However, assistance is available to help small business contractors compete for DOD contracts. The assistance programs will also be discussed in this thesis.

In additions, the thesis will discuss how the contracting officer plays a pivotal role in this area by encouraging small business participation. It is the contracting officer's responsibility to ensure that small business laws and rules are adhered to within each

procurement. This role is vital in order to guarantee that small disadvantaged businesses as well as women-owned small businesses are given fair opportunities to win DOD contracts/subcontracts.

## **B. OBJECTIVE**

The purpose of this thesis is to provide a detailed analysis of the effects of DOD acquisition reform on small disadvantaged businesses and small women-owned businesses since the 1990's when major procurement changes began to impact DOD's conduct of its procurement business.

In addition, it will provide useful information to contracting officials to assist them in meeting their yearly contracting goals.

In order to clarify the above issues, data gathered will address the following research questions:

### **1. Primary Research Question**

What have been the specific effects of DOD acquisition reform on small disadvantaged businesses and women-owned small businesses?

### **2. Subsidiary Research Questions**

- What are the most important reform initiatives DOD has undertaken since the 1990's through 2002 to improve acquisition?
- What types of products and services do small businesses provide to DOD?
- How many Small Disadvantaged and Women-Owned Small Businesses have contracts with DOD?
- In what ways have these businesses been helped by acquisition reform?
- What are the barriers that prevent these types of businesses from obtaining DOD contracts?

- What assistance currently exists to help small businesses to compete for DOD contracts either directly as a prime contractor or as a subcontractor.
- What is the role of the Small Business Administration in assisting small businesses to win DOD contracts?
- What is the role of the contracting officer in this arena?

#### **C. SCOPE**

The scope of this thesis will focus on the following topics:

- The effects of acquisition reform on businesses since the mid 1990's.
- The history of the SBA/DOD partnership in small business DOD procurement.
- Women-owned and small disadvantaged businesses contracting with DOD.
- The barriers preventing small businesses from participating in DOD contracts.
- The assistance in place to help small businesses obtain government contracts.
- The key role played by the DOD contracting officer and small business specialist in this arena.

#### **D. METHODOLOGY**

The methodology followed for this thesis consists of the following:

- A search of acquisition related web sites.
- Research of the literature available in the form of books, journal articles and other library information sources.
- Query home command, Headquarters, United States Army Communications-Electronics Command (CECOM), regional small business office, DOD small business office as well as contracting officers for their input and feedback.

- Identify specific acquisition reform policies and their effects on small businesses.
- Identify specific barriers preventing small disadvantaged and women-owned small business participation in DOD procurements.
- Identify specific assistance in place to help small businesses obtain DOD contracts.

#### **E. ORGANIZATION OF THE STUDY**

The research results will be presented in five chapters. The first chapter will discuss the background and provide a framework for this research. Chapter II will present the role of small business in meeting DOD mission requirements, focusing on the 1990s through 2002. Chapter III will discuss acquisition reform in depth as it relates to the small businesses discussed in this thesis. Chapter IV will present a statistical analysis of possible acquisition reform effects on small disadvantaged businesses and women-owned small businesses contracting with DOD. Chapter IV will also discuss the roles of the DOD contracting officers in the small business procurement arena. Finally, Chapter V will provide answers to the research questions identified in Paragraph B., and present specific conclusions and recommendations resulting from the thesis research.

## **II. ROLE OF SMALL BUSINESSES IN MEETING DOD MISSION REQUIREMENTS**

### **A. INTRODUCTION**

The purpose of this chapter is to identify the role that small businesses play in the Department of Defense's missions and national defense strategy.

### **B. REVOLUTION IN MILITARY AFFAIRS**

The mission of the Defense Department is to protect America and her allies against her enemies both foreign and domestic. The early 1980's saw a massive build up of the Defense Department, resulting in a large infrastructure established to support the warfighter. In the latter part of the twentieth century, DOD's strategy was to structure the armed forces in such a way as to be able to fight two major theater wars nearly simultaneously, and to be able to undertake several operations other than war as well. This force structure was appropriate in the Cold War era.

However, when the Soviet Union collapsed, this force structure was no longer appropriate. As a result of the end of the Cold War in the late 1980's, an era of major cutbacks of the defense budget began. At the same time, and largely driven by advances in information technology, DOD began a "revolution in military affairs" in order to capitalize on the advances in technology for use in the battlefield in a more affordable manner. The revolution, now termed "transformation," has continued into the 21<sup>st</sup> Century and is producing fundamental changes in operational concepts, doctrine and force structure. (Ref. 7)

Some of the goals of this transformation are:

- to continue to expand acquisition reform to buy goods and services more efficiently in order to reduce the time it takes to deliver these goods and services to the warfighter;
- to work with the General Accounting Office (GAO) and the Defense Contract Audit Agency (DCAA) to eliminate or minimize auditing and accounting procedures in order to ease the civil-military integration of the nation's industrial base;
- to reduce the size and cost of DOD infrastructure through the use of best commercial practices and base closure and realignment; and,
- to privatize those support areas that are not "inherently governmental." Inherently governmental is a term applied to those functions that require the exercise of personal judgment and discretion on the part of a Government official and cannot be performed by private industry. (Ref. 8)

According to Donald Rumsfeld, current Secretary of Defense, the military's mission in the 21<sup>st</sup> Century is a very complex and difficult one. In a speech given to students at the National Defense University, Rumsfeld noted:

Our challenge in this new century is a difficult one. It's really to prepare to defend our nation against the unknown, the uncertain and what we have to understand will be the unexpected. That may seem on the face of it an impossible task, but it is not. But to accomplish it, we have to put aside the comfortable ways of thinking and planning, take risks and try new things so that we can prepare our forces to deter and defeat adversaries that have not yet emerged to challenge us. Well before September 11<sup>th</sup>, the senior civilian and military leaders of the Department of Defense were in the process of doing just that. With the Quadrennial Defense Review, we took a long, hard look at the emerging



security environment and we came to the conclusion that a new defense strategy was appropriate. We decided to move away from the "two major theater war" construct for sizing our forces, an approach that called for maintaining two massive occupation forces capable of marching on and occupying capitals of two aggressors at the same time and changing their regimes. This approach served us well in the immediate post-Cold War period, but it really threatened to leave us reasonably prepared for two specific conflicts and under-prepared for the unexpected contingencies of the 21<sup>st</sup> century. (Ref. 9)

During the same speech, the Secretary emphasized that due to the fact that the United States is an open society, it is very vulnerable to terrorist attacks as proven by September 11, 2001. These terrorist attacks can also damage America's space assets and information networks; therefore, America needs to continue to develop effective means to defend against cyberspace attacks. He stated that DOD's transformation strategy includes the following six major goals:

- Protect the U.S. homeland and our bases overseas;
- Project and sustain power in distant theaters;
- Deny sanctuary to enemies so that they know that no corner of the world is remote enough to protect them from U.S. reach;
- Protect information networks from attack;
- Use information technology to link U.S. troops to be able to fight jointly; and,
- Maintain access to space and protect space abilities from enemy attack.

The expected result is to be able to rapidly deploy joint forces over long distances ensuring all services are

working together with air, land and sea capabilities in order to be able to strike quickly with devastating results.

As a direct response to the events of September 11, 2001, the Northern Command in the United States was established on October 1, 2002 at Peterson Air Force Base in Colorado. This new command will assist the new Homeland Security Department to protect, respond and defend against threats to the territorial United States. (Ref. 10)

Another goal of the military's strategy for the 21<sup>st</sup> Century is not just to fight wars, but also to prevent them from ever happening in the first place. In support of that goal, DOD intends to deploy an effective missile defense within the continental United States to work as a deterrent to other nations who may think of developing missiles to use against America.

This will require a balancing of existing forces and capabilities by developing a defense arsenal of manned and unmanned vehicles, short and long-range systems, stealthy and non-stealthy systems. In addition, DOD will continue to expand into the information age to capitalize on cutting edge technology.

The Quadrennial Defense Review held in 2001 shifted defense planning from the "threat-based" model of the past to a "capabilities-based" model for the future. The future model focuses on how an enemy might fight rather than whom that enemy might be or where a war might happen. This paradigm shift will prepare the United States to deter and defeat adversaries who will use the element of surprise, deception, and asymmetric warfare to achieve their

objectives. The new focus will also require the military to adapt its existing capabilities to new circumstances, while experimenting with the development of new capabilities. The senior civilian and military leadership of the DOD participated in the review. Donald Rumsfeld, the key motivator of the military transformation, stated the following regarding defense in the 21<sup>st</sup> century in the current QDR report:

Transforming America's defense for the 21<sup>st</sup> century will require a long-standing commitment from our country and its leaders. Transformation is not a goal for tomorrow, but an endeavor that must be embraced in earnest today. The challenges the Nation faces do not loom in the distant future, but are here now. They involve protecting our critical bases of operation - including the most critical base of operation, the U.S. homeland- and projecting and sustaining U.S. forces in distant anti-access environments. They entail assuring U.S. information systems and providing persistent surveillance, tracking, and rapid engagement of adversary forces and capabilities. They require enhancing the capability and survivability of U.S. space systems and leveraging information technology and new concepts to provide for more effective joint operations. (Ref. 11)

### **C. THE ROLE OF SMALL BUSINESS IN DOD'S MISSIONS**

Small businesses are very involved in providing many services in support of defense. For example, after the September 11, 2001 events, DOD relied heavily on small businesses to provide the "critical surge capacity" required to rebuild the Pentagon. Forty-three percent of the Pentagon renovation prime contractors are small businesses. These businesses, ranging in size and varying in trade, provided shifts of employees working around the

clock, seven days a week to restore 300,000 square feet of office space so that 1,500 of 4,600 displaced DOD staff could return as quickly as possible to a fully operational workplace. (Ref. 12)

One month after the Pentagon attack, the Secretary of Defense issued a Broad Agency Announcement (BAA) requesting companies and educational institutes to propose concepts to combat terrorism that could be converted into a product that could be fielded within 18 months. More than 12,500 concepts evolved as a result of the BAA process. Concepts included methods to destroy difficult targets, conduct operations in remote areas and to deploy effective countermeasures in order to destroy weapons of mass destruction. Women, minority and veteran owned small businesses were well represented among the proposals selected for further evaluation. (Ref. 12)

Small businesses represent over 50 percent of America's Gross Domestic Product (GDP). (Ref. 13) Examples of the types of products and services they have provided to DOD over the last twenty years include computer equipment, software, communications services, educational services, Internet website development, hazardous waste removal, accounting and management support services, fire and security systems, information management technologies, software training, network design and support, facilities management services, systems integration, and engineering services. They have also provided computer engineering services, Research and Development services, computer test and evaluation services as well as facility services and custodial services. (Ref. 14)

The following significant examples of small business' accomplishments in supporting DOD's mission over the years provide proof of how important these businesses are to defense of the country. For example, Foam Matrix, an ISO 9000 certified small business located in Inglewood, California, was founded as a surfboard company. (ISO 9000 is the International Organization for Standardization for Quality Management Systems). While perfecting surfboards, the company founder developed a strong, ultra-light, repairable composite foam. This product turned out to have military application. The foam is now the main component in the replacement wings of the X-45 unmanned combat air vehicle. Because of this success, Foam Matrix will be producing replacement parts for the C-17 military transport plane. (Ref. 12)

A group of small businesses teamed together to resurrect the Army's Land Warrior program after a large business prime contractor was unable to complete the program. The original prototype was so large that if a soldier had to drop to the ground and roll, he could get stuck on his back because of the weight of the system.

Pacific Consultants, Exponent, Pemstar, Computer Sciences and Omega worked together, and in a matter of months and at half the price designed a prototype of the system that now weighs 12.75 pounds, a small fraction of its original weight. These companies redesigned software so that it would migrate from complex military code to Microsoft 2000 software. As a result, any soldier who grew up with computers can use the new system without extensive training. (Ref. 12)

In 1996 a woman-owned small business, SAB construction of Cameron Park, California won a construction contract at Nellis Air Force Base for one million dollars. The company completed the job within the one-year contractual timeframe and received an outstanding evaluation of their performance by their customer. (Ref. 15)

In addition to the above, small businesses provide DOD with logistics and acquisition management support in the areas of reliability and maintainability of weapon systems as well as technical documentation. In 2000, the Naval Air Systems Command (NAVAIR) awarded the largest Section 8(a) competitive award in the history of the 8(a) program. The contract was awarded to "TeamQualtec," which consists of the team of 8(a) firms Qualtec, Inc. of Beltsville, MD and CCI, Inc. of Alexandria, VA. (The Small Business Administration (SBA) 8(a) Program is a program that allows the government to award prime contracts to socially and economically disadvantaged owners whose firm is certified under the SBA's 8(a) Program. (Section 8(a) refers to Section 8(a) of the Small Business Act). (Ref. 17) The contract awarded is an indefinite delivery, indefinite quantity (IDIQ) type for technical and management logistics services in support of NAVAIR's Headquarters office and field activities for a ten-year period of performance. The cumulative dollar value of the contract is expected to be approximately \$698.5 million over its life. (Ref. 16)

In 2001, Kelly Logistics Support Systems, a woman-owned small business, provided Wright Patterson Air Force Base's research laboratory with a desktop simulator using commercial equipment. The system simulated theater level

operations with a word-spotting algorithm, which significantly improved user acceptance of voice recognition technologies for flight line maintenance applications. (Ref. 18)

On February 16, 2001, the Defense Information Systems Agency (DISA) awarded the largest small business set-aside in history. The award involved three IDIQ contracts for Defense Information Systems Network (DISN) Satellite Transmission Services-Global (DSTS-G). Through these contracts, the government will receive a government-wide global fixed satellite service bandwidth along with related business, enterprise satellite-based services and software applications. The awardees are Artel, Inc., a small disadvantaged business; Spacelink International LLC, a small business; and Arrowhead Space & Telecommunications, Inc., a woman-owned small disadvantaged business. The set-up of these contracts is such that these three contractors will compete for the work on an individual task order basis. Each contract was awarded for a base period of three years with seven one-year options. The cumulative maximum face value of the combined contracts is expected to be \$2.196 billion. (Ref. 16)

Women-owned small businesses participate in all domestic industries. Compared with men, women have lower shares of firms in construction, finance, insurance and real estate. However, women have a higher share in the service industries. (Ref. 19) As of calendar year 2000, there were 141 million Americans in the labor force with almost 10 million who were self-employed. Women's shares

of the labor force and of self-employment increased from 40.54 percent and 22.37 percent in 1976 to 46.38 percent and 37.88 percent in 2000, respectively. (Ref. 20)

Each year before Congress, DOD pledges to strive to enhance its overall small business performance, in order to achieve the recently established goals for woman-owned small businesses, and Historically Underutilized Business Zones (HUBZones). In Fiscal Year 2001, DOD awarded \$51.8 billion in procurement contracts to small business firms, of which \$28.3 billion was awarded to small business prime contractors. This was the first time in the history of the DOD Small Business Procurement Program that the program surpassed the \$50 billion threshold. (Ref. 12)

In FY 2001 the number of DOD contracts awarded to small businesses increased by 8.2 percent over FY 2000 to 1,825. Of these, 584 were women-owned and 355 were located in HUBZones. In 2002, according to the Deputy Under Secretary of Defense for Acquisition, Logistics and Technology, E. C. "Pete" Aldridge, 88 percent of DOD contractors are small businesses. (Ref. 12)

#### **D. DOD ACQUISITION AND PROCUREMENT IN THE 21<sup>ST</sup> CENTURY**

When the Soviet threat fell apart and the cold war ended, the direct effect was a steady decline of funding, forcing DOD to deal with unprecedented change. From the mid-1980's through the latter part of the 1990's, DOD experienced significant budget cuts. As a direct result, several rounds of Base Realignment and Closure Commissions (BRAC's) in 1988, 1991, 1993, and 1995 resulted in the closure of a significant number of domestic bases. In addition, the acquisition workforce was reduced by



approximately 50 percent, from 460,516 in 1990 to 230,556 employees in 1999. From Fiscal Year 1990 to Fiscal Year 1999, DOD procurement values decreased from approximately 144.7 billion dollars to about 139.8 billion dollars. However, workload increased by roughly 12 percent and the number of procurement actions increased from around 13.2 million to about 14.8 million. (Ref. 21)

All of these factors have had a substantial impact on the way that DOD has had to adapt its acquisition and procurement practices and policies in response to the known and unknown threats of the 21st Century. Although real defense spending has grown every year since 1998, and procurement is way up, the methods DOD uses to buy goods and services and weapon systems are not likely to return to those of pre-Cold War days because of numerous process innovations brought about by acquisition reforms and workforce downsizing.

The business processes in this century used by DOD to buy goods and services are transforming along with the military through the use of more efficient business practices, electronic commerce, and increased focus on strengthening the industrial base.

As stated previously, small businesses, including women-owned and small disadvantaged businesses, are very involved with both DOD acquisition and procurement. There have been numerous acquisition reforms enacted over the years to improve the way that DOD and the rest of the Federal Government buys its goods and services. Some of these businesses may have been affected by those reforms.

Chapter III will discuss some major acquisition reforms resulting from the revolution in military affairs, and their impact on small women-owned and small disadvantaged businesses.

### **III. ACQUISITION REFORM**

#### **A. INTRODUCTION**

The purpose of this chapter is to discuss DOD acquisition reform and associated legislation, with particular focus on the reform laws that have directly affected WOSB's and SDB's.

#### **B. BACKGROUND**

As a result of the Cold War with the Soviet Union ending in the late 1980's, DOD saw its budget reduced 42 percent from that point in time through 1997. (Ref. 22) Due to the drastic budget decline, DOD had no choice but to become more efficient in buying its goods and services through streamlining and innovation. (Ref. 23) At the same time as the Cold War was ending, Congress also wanted the acquisition workforce to become better educated and proficient in order to manage acquisition reform. (Ref. 24)

In reviewing available data on acquisition reform, this researcher chose first to define what is currently accepted as DOD acquisition reform, and then to identify the factors that led to reform in the 1990s. In addition, this chapter provides a synopsis of the reform laws enacted in the 1990s, with a particular focus on those laws that Congress and the SBA Office of Advocacy say have had a direct impact on small businesses, including WOSBs and SDBs.

#### **C. DOD ACQUISITION REFORM**

The Defense Systems Management College (DSMC) defines DOD acquisition reform as:

an endeavor to make the acquisition process more effective, efficient, and productive. It involves reducing overhead, streamlining requirements, speeding up processes, cutting paperwork and other similar initiatives to reduce bureaucracy. Acquisition reform includes a move toward the use of commercial practices as well as the use of private enterprise to do more of the functions traditionally done by government. (Ref. 25)

#### **D. FACTORS LEADING TO ACQUISITION REFORM**

Factors that led to DOD acquisition reform and associated legislation included a significant budget decline starting in the late 1980s, "The Section 800 Panel Report of 1993", "The National Performance Review of 1993", and Dr. William Perry's 1994 "Acquisition Reform - A Mandate For Change." (Ref. 26)

##### **1. DOD Budget Decline**

As stated previously, as a result of the end of the Cold War with the Soviet Union, the DOD budget declined steadily from the late 1980s through 1997. (Ref. 22) Lack of resources encouraged DOD to develop initiatives to improve its buying practices.

##### **2. Section 800 Panel Report**

In addition to the budget decline, Congress began increasingly to focus on the acquisition practices DOD followed to buy its goods and services in the late 1980's and the 1990's. Consequently, Section 800 of the National Defense Authorization Act of 1990 directed DOD to convene a panel of government, industry and academic representatives. (Ref. 26) The panel's purpose was to review and provide recommendations for changes to acquisition laws pertaining to DOD buying practices to improve and simplify those procedures. The result was "The Section 800 Panel Report,"

published in 1993. The report identified over 600 statutes and approximately 300 laws that should be repealed or changed to allow DOD to buy its goods and services more efficiently at a lower cost (Ref. 26).

### **3. National Performance Review**

Concurrently with the Section 800 panel report, Vice President Albert Gore completed his National Performance Review in September 1993. The report contained similar recommendations for DOD acquisition improvements. It stated that DOD's acquisition processes and practices were based on "rigid rules and procedures, extensive paperwork, detailed design specifications, and multiple inspections and audits." (Ref. 27) As a result of these practices, a costly DOD procurement bureaucracy developed which caused manufacturers to include the cost of contending with the bureaucracy within the prices they charged. (Ref. 27) Consequently, the Vice President recommended that the government streamline the acquisition system by rewriting the Federal Acquisition Regulation (FAR). (Ref. 26)

### **4. Dr. Perry's Acquisition Mandate for Change**

Dr. William Perry, Secretary of Defense in the early to mid 1990s, published his acquisition vision in "Acquisition Reform - A Mandate for Change" in 1994. His mandate was based on the aforementioned reports and on his vision for how DOD should implement procurement reform. (Ref. 28)

Dr. Perry justified the need for DOD acquisition reform on the basis of the declining defense business, a decline that caused numerous defense company mergers and

acquisitions (Ref. 28). The result was that DOD could no longer rely on a unique defense industrial base to buy its goods and services (Ref. 28)

Secretary Perry's buying philosophy focused on three distinct areas: the establishment of a combined defense/commercial national industrial base in lieu of a separate defense industrial base, the abandonment of military unique specification (MILSPECs) requirements, and the need for DOD to rely more heavily on the commercial marketplace to buy its goods and services. (Ref. 28)

Dr. Perry also focused on the small business contractor. He felt DOD purchases from the commercial marketplace would facilitate the participation of small business in the defense business. He believed that the defense business decline resulted in fewer and fewer prime contractors with whom small businesses could subcontract. The small business contractor would therefore have to assume the dual cost of additional overhead and performance and unnecessary MILSPECs in order to contract with DOD (Ref. 28).

#### **E. 1990S ACQUISITION REFORM LEGISLATION**

The most important acquisition reform laws enacted during the 1990s were The Defense Acquisition Workforce Improvement Act of 1991 (DAWIA), The Federal Acquisition Streamlining Act of 1994 (FASA), The Information Technology Management Reform Act of 1995 (IFTMRA), The Federal Acquisition Reform Act (FARA) of 1995, and The Federal Activities Inventory Reform Act (FAIRA) of 1998.

## **1. Defense Acquisition Workforce Improvement Act (DAWIA)**

DAWIA specifically supported the intent of Congress to have a better-trained and educated acquisition workforce. (Ref. 24) The law identified positions in career fields such as auditing, business, cost estimating, financial management, contracting, facilities engineering management, information technology, weapon system life cycle logistics, production, quality and manufacturing, program management, purchasing, systems planning, research, development and engineering, and test and evaluation to be acquisition positions. It established an acquisition corps and the requirement for DOD to train and certify acquisition personnel within a tri-level system that included mandatory educational requirements at each level. In addition, it set a yearly mandatory requirement for acquisition personnel to obtain 40 hours of acquisition training. (Ref. 24) As a result of DAWIA, all acquisition positions now require certification. For example, a contracting officer position, job series 1102, requires Level III certification in Contracting. (Ref. 24) This law was selected for study because of its contribution to the professionalization of the DOD acquisition workforce.

## **2. The Federal Acquisition Streamlining Act (FASA)**

FASA fundamentally changed the way that the government, including DOD, buys its products. (Ref. 29) It did this by promoting the acquisition of commercial items for DOD to meet its needs instead of military specification unique items. (Ref. 29)

The simplified acquisition threshold level for awarding contracts to small businesses was elevated to from

\$25,000 to \$100,000. This is significant for small businesses because items bought under the simplified acquisition threshold between \$2,500 and \$100,000 must now be set aside for a small business. The only exception to this law would be if the contracting officer could not locate a suitable small business to perform a specific contractual effort. (Ref. 29)

As a consequence of FASA, micro-purchases below \$2,500 are no longer restricted to small businesses or subject to the rules of the Buy American Act. Prior to this legislation, only small businesses and American businesses could be utilized for small purchases. This led to the establishment and use of the government purchase card. The government-wide purchase card is now used for micro-purchases without the use of full and open competition. (Ref. 29) Formerly, all purchases up to the dollar threshold of \$25,000 were reserved for small businesses.

Another important aspect of FASA is that for the first time in acquisition history, the law set a yearly goal of five percent of all procurement dollars to be awarded to WOSB's. (Ref. 29) Although this goal is mandated in law, DOD has yet to meet the yearly WOSB goal. (Ref. 29)

Finally, FASA ushered in the new era of electronic commerce to lower the cost of DOD procurement by reducing procurement cycle time for product delivery and by eliminating excessive paperwork. (Ref. 29) This law was selected for study because of the fundamental changes in DOD procurement resulting from its enactment.



### **3. Information Technology Management Reform Act (ITMRA)**

ITMRA became a part of the Clinger-Cohen Act of 1996, which was then incorporated into the Federal Acquisition Reform Act (FARA). It shifted responsibility for Information Technology (IT) acquisition responsibility from the General Services Administration (GSA) to the Director, Office of Management and Budget (OMB). The intent of this law was to streamline IT acquisition and to emphasize life cycle management of IT as a capital investment. Most significantly for the commercial world, ITMRA encouraged the incremental purchasing of Commercial Off the Shelf (COTS) products instead of government unique products. (Ref. 30) This law was selected for study because of its potential to increase opportunities for small businesses to compete for DOD contracts.

### **4. Federal Acquisition Reform ACT (FARA)**

FARA, also known as the Clinger-Cohen Act, incorporated ITMRA and introduced the term "efficient competition" into the acquisition arena. (Ref. 31) What this means is that the standard for full and open competition resulting from the Competition in Contracting Act (CICA) of 1984 could be modified by "the use of procurement methods consistent with efficiency to fulfill the government's requirements in the most effective manner." (Ref. 31) In other words, similar contracting efforts could be combined for efficiency's sake. This law was selected for study because of the resultant changes in buying practices and policies; practices and policies which began to affect small businesses in the mid 1990s. (Ref. 32)

## **5. Federal Activities Inventory Reform Act of 1998 (FAIRA)**

FAIRA requires all federal agencies to submit an annual list of those activities performed by federal employees that could be performed by private industry to the Director of the Office of Management and Budget. Subsequently, certain functions performed by federal workers can be contracted out to private firms. However, the law dictates that each time an executive agency head considers contracting with the private sector for an activity on the inventory list, competitive procedures must be followed. (Ref. 33) This law was selected for study because of its potential for moving many federal jobs from the public domain to private industry, which could increase contracting opportunities for small businesses.

### **F. THE IMPACT OF ACQUISITION REFORM ON SMALL BUSINESS**

A review of empirical data indicates that the acquisition reform laws having the most significant impact on WOSB's and SDB's are (FASA) and FARA/Clinger-Cohen Act. (Ref. 34) Therefore, for purposes of this thesis, the focus will be on these two reform measures. According to the SBA Office of Advocacy and Congress, these bills have directly impacted small businesses, including WOSB's and SDB's, by limiting the ability of such businesses to compete for federal contracts. (Ref. 34)

The key to the impact of these two laws on small businesses inclusive of WOSBs and SDBs are the "by-product practices" (Ref. 34), including contract bundling and increased use of Multiple Award Schedules, Federal Supply Schedules and Government-Wide Acquisition Contracts (GWACs). (Ref. 34)

### **1. Contract Bundling**

The Small Business Act defines contract bundling as the combination of two or more contracts previously available to small businesses that, because of the bundling practice, are no longer available. (Ref. 3) The combination of contracts makes the contract too large for bidding by small businesses, including WOSBs and SDBs. (Ref. 34)

The SBA Office of Advocacy claims that the ability of small businesses to remain a vital part of America's economy has steadily declined due to contract bundling. (Ref. 34) Chapter IV will provide an analysis of the impact of contract bundling on DOD WOSBs and SDBs.

### **2. Multiple Award Schedule (MAS)**

A Multiple Award Schedule is an Indefinite Delivery Indefinite Quantity (IDIQ) type of contract controlled by the General Services Administration (GSA). DOD utilizes these contracts to place orders for commonly required commercial supplies and services from one vendor or from multiple vendors. For recurring requirements, DOD utilizes a specific MAS to award a Blanket Purchase Agreement (BPA) to a sole vendor. By using the BPA method for commercial supplies and services, DOD capitalizes on quantity discounts as well as reducing paperwork and procurement cycle time. (Ref. 35)

MASs have impacted the ability of small businesses to compete for federal contracts because some of these BPAs are so large in volume and dollar value. (Ref. 34)

### **3. Federal Supply Schedules**

Federal Supply Schedules are a series of General Services Administration (GSA) schedules of supplies and

services commonly used by the Government at specified prices. Using competitive practices, contracting officers award Indefinite Delivery, Indefinite Quantity (IDIQ) contracts to commercial firms requiring the firms to provide the specified supplies and services under "schedule" at stated prices for given periods of time.

(Ref. 34) These contracts become so large that the small business contractor is unable to handle the dollar volume of the IDIQ's and therefore is unable to compete. (Ref. 34)

#### **4. Government-Wide Agency Contracts (GWACS)**

Government-Wide Agency Contracts are multi-agency contracts for various information technology resources that other specified federal agencies can use. The host agency charges the other participating agencies a nominal fee. These multi-agency contracts permit the aggregation of agency demand to encourage vendors to offer the best possible prices, while reducing the overhead associated with multiple acquisitions. (Ref. 34) GWACs tend to become so large that the small business contractor once again is often prevented from competing for any of the work contracted for under a GWAC. (Ref. 34)

#### **G. IMPACT OF CONTRACT BUNDLING ON WOSBS AND SDBS**

According to the SBA's Office of Advocacy, MAS's and GWACs are normally so large in scope that small businesses are unable to compete. (Ref. 34) In addition, these procurement tools are making it more difficult for small businesses to increase capacity and capabilities because the smaller contracts that traditionally allowed them to gain access into the Federal market are no longer available. (Ref. 34)

The SBA Advocacy Office believes that the use of the Federal Supply Schedule has also hurt small businesses, because even though the Small Business Act and FASA require goods or services purchases between \$2,500 and \$100,000 to be reserved for small businesses, the Federal Supply Schedule (FSS) overseen by the General Services Administration does not restrict FSS contracts to small businesses. (Ref. 34)

On June 20, 2001 Susan M. Walthall, the Acting Chief Counsel for the SBA Office of Advocacy, provided the House Committee on Small Business the following testimony: "Federal procurement policy issues such as contract bundling, Federal Supply Schedules, Government-Wide Acquisition contracts and agency downsizing of the acquisition work force impact DOD's ability to meet its goals, and as a result small businesses are facing roadblocks throughout the Federal Government." (Ref. 34)

Ms. Walthall further stated, "Since its establishment, the Office of Advocacy has been actively engaged in the analysis of Federal procurement policy and its impact on the small business community. A primary concern in recent years has been whether the top-to-bottom Federal acquisition reform of the mid-1990's in the form of the Federal Acquisition Streamlining Act of 1994

(FASA), the Clinger-Cohen Act of 1996 and the Federal Acquisition Reform Act of 1996 (FARA) has helped or hindered the Federal Government in achieving its mission as cited in the 1953 Small Business Act and subsequent amendments to this national policy statement." (Ref. 34)

According to SBA Office of Advocacy records, small businesses received a little over thirty-eight percent of the \$10.2 billion spent in FY 2000 on the FSS. Before procurement reform, small purchases of less than \$25,000.00 were mainly reserved for small business awards, and they received close to seventy-five percent of the dollars. (Ref. 34)

The House Small Business Committee accuses federal agencies, including DOD, of consolidating contracts, making them so large that small businesses cannot compete for them. (Ref. 35) The Committee further states that the development of these "mega-contracts" (meaning bundled contracts, MAC's, FSS's, and GWAC's) are a direct outgrowth of the Federal Acquisition Streamlining Act (FASA) of 1994, and the Federal Acquisition Reform Act, passed in 1996. (Ref. 35)

As a result, members of Congress believe that government agencies have systematically and unfairly cut small businesses out of work for the federal government since the enactment of contract streamlining legislation, without securing the cost savings envisioned. (Ref. 35)

However, according to Deirdre Lee, current director of Defense Procurement and Acquisition Policy in the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, small business DOD prime contractors have increased, not decreased. For example, in FY 2002, the number of small business prime contractors performing on DOD contracts increased by 9,806, from 24,130 in FY 2001 to 33,936 in FY 2002. (Ref. 36) In addition, DOD awarded \$59 billion to small businesses in FY 2002. (Ref. 36) Ms. Lee

further noted that DOD dollars awarded to WOSB's and SDB's also increased significantly at the prime and subcontract level in FY 2002. (Ref. 36)

#### **H. CHAPTER SUMMARY**

This chapter identified critical acquisition reform measures and the potential impact of this legislation on WOSBs and SDBs. It also summarized the evidence of that impact, as provided by SBA Office of Advocacy and Congress. The practice of contract bundling resulting from acquisition reform was singled out for special criticism. (Ref. 34) and (Ref. 36)

However, DOD currently indicates that acquisition reform has had a positive effect on small businesses, including WOSBs and SDBs, as indicated by the increase in DOD small business contractors. (Ref. 37)

The following chapter will present a detailed analysis of the data presented in this chapter regarding the effects of acquisition reform on DOD WOSBs and SDBs. In addition, it will provide an analysis of the data discrepancies between the SBA Office of Advocacy, Congress, and DOD.

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## **IV. ANALYSIS OF THE EFFECTS OF DOD ACQUISITION REFORM ON WOSBS AND SDBS**

### **A. INTRODUCTION**

This chapter presents an analysis of the effects of acquisition reform on WOSBs and SDBs contracting with DOD in the 1990s, and 2000 through 2002. The chapter includes a discussion of the SBA Office of Advocacy, Congress and DOD perspectives regarding those effects.

### **B. BACKGROUND**

The researcher chose fiscal years 1992 through 2002 for study. This timeframe was chosen because practices such as contract bundling began in the early 1990s and accelerated after the enactment of both FASA (1994) and FARA (1996). (Ref. 34) Contract bundling, a by-product of acquisition reform, has had a negative impact on the ability of small businesses to compete for federal contracts. (Ref. 35)

DOD's opinion regarding the impact of acquisition reform and contract bundling on small businesses, inclusive of SDBs and WOSBs, differs from that of the SBA and Congress. In fact, DOD believes that acquisition reform has helped the small business contractor, particularly WOSBs. (Ref. 36)

This chapter reviews the perspectives of these three organizations regarding the effects of acquisition reform on small businesses, inclusive of WOSBs and SDBs. In order to accomplish this, the researcher analyzed DOD small business procurement data for fiscal years 1992 through 2002 from three aspects.

First, the analysis determined the percentage of DOD's total procurement prime contract dollars WOSBs and SDBs received during those years, and how that percentage corresponded to the congressionally-mandated yearly small business procurement goals.

Secondly, the analysis attempted to determine whether or not a direct statistical link could be identified to clearly determine either a positive or negative impact on these businesses resulting from acquisition reform and contract bundling.

Finally, the chapter analysis examined DOD prime contract dollars awarded to WOSBs and SDBs during the thesis timeframe. This is important because the data from Congress and the SBA Office of Advocacy contained only prime contract dollars awarded to small businesses. (Ref. 34) and (Ref. 35) Therefore, DOD subcontracting dollars awarded during the same timeframe to WOSBs and SDBs were not examined for this thesis.

### **C. SOURCES OF DATA**

The data analyzed in this chapter originated from the SBA Office of Advocacy records, as well as congressional and DOD records applicable to DOD small business procurements for fiscal years 1992 through 2002. The majority of the data originated from the Federal Procurement Data System (FPDS).

#### **1. The Federal Procurement Data System (FPDS)**

Established in 1978, the FPDS is the government's centralized data center that "collects, processes and disseminates official statistical data on Federal contracting." (Ref. 37) The Office of Management and Budget

(OMB), Congress, the General Accounting Office (GAO), federal executive agencies and the general public use this database to develop recurring procurement reports as well as special reports. (Ref. 37) The FPDS database also contains consolidated procurement information by fiscal year regarding small businesses, inclusive of WOSBs and SDBs. The Federal Procurement Data Center (FPDC), an organization within the General Services Administration (GSA), manages the FPDS database. (Ref. 37)

## **2. SBA Office of Advocacy Data Sources**

The SBA Office of Advocacy is an independent office which works with Congress on behalf of the small business contractor. Beginning in the early 1990s the Advocacy Office began to receive complaints from small business contractors about the loss of their ability to compete for government contracts. (Ref. 34) The contractors stated that one of the reasons for the loss was that numerous contracts, formerly available to them, were being consolidated into single large contracts. As a result, the contracts became too large, both in scope and dollar volume, for the small business contractor to compete for them. (Ref. 34)

Due to these complaints, the Advocacy Office contracted with Eagle Eye Publishers for their analysis of existing procurement data in order to assess the impact of contract bundling government-wide on the small business contractor from fiscal years 1992 through 2001. (Ref. 38) Eagle Eye's review pertained only to prime contract data and procurement actions above the \$25,000 threshold. (Ref. 38)

### **3. Congressional Data Sources**

Congressional data regarding DOD procurements pertain to fiscal years 1998 through 2002. Congress has been closely reviewing DOD procurement data within this timeframe in order to determine whether or not acquisition reforms and contract bundling have helped or hurt small businesses. (Ref. 35) In fact, each year since 2000, the congressional Small Business Committee has used this data to issue a report card on the performance of each federal agency in achieving yearly small business goals. (Ref. 35) The DOD report card will be discussed later in this chapter.

Due to the Eagle Eye Publisher's report on contract bundling, Congress directed the General Accounting Office (GAO), its investigative arm, to research the contract bundling issue. GAO published those results in, "Small Businesses, Limited Information Available on Contract Bundling's Extent and Effects," GAO/GGD-00-82, March 2000. (Ref. 39)

### **4. DOD Data Sources**

DOD procurement data for acquisitions above the \$25,000 threshold originated from data collected on Department of Defense (DD) Form 350, "Individual Contracting Action Report." (Ref. 40) Each service and DOD component reports every procurement action over \$25,000 on this form to their respective headquarters. Each headquarter then submits the information to The Office of Secretary of Defense, (OSD) Directorate for Information Operations and Reports (DIOR). Ultimately, the DIOR submits

the data to the FPDC for incorporation into the FPDS. (Ref. 40) Until FY 2001, the DD Form 350 did not include any contract bundling information. (Ref. 38)

DOD also researched the contract bundling issue. They contracted with the Logistics Management Institute (LMI) of McLean, Virginia. LMI published their report, "Case Studies in DOD Contract Consolidations, A Study for the Office of Small and Disadvantaged Business Utilization," in December 2000. (Ref. 41)

**D. THREE PERSPECTIVES REGARDING THE EFFECTS OF DOD ACQUISITION REFORM ON SMALL BUSINESSES, INCLUSIVE OF WOSBS AND SDBS**

**1. SBA Office of Advocacy**

The opinion of the SBA Office of Advocacy of the impact of acquisition reform on small businesses is that some of those reforms negatively affected the ability of small businesses to obtain federal contracts throughout the 1990s and into the early 2000's. (Ref. 34) For example, they state that the number of new contracts greater than the \$25,000 threshold decreased from a high of 70,088 in FY 1995 to 41,075 in 1999 across the federal government. (Ref. 34)

Because of the identification of the contract bundling issue, Eagle Eye Publishers reviewed FPDS data from Fiscal Years 1992 through 2001 for the purpose of determining whether or not contract bundling occurred in those years and was negatively impacting small businesses. (Ref. 38)

Since the FPDS database did not contain specific bundling information for the years that Eagle Eye reviewed, Eagle Eye developed its own definition. They assumed that procurements coded in the database as providing multiple

goods or services being performed in numerous places and using different contract types were bundled contracts. (Ref. 38) They noted that the most frequently used contractual vehicles identified in the FPDS database were GSA schedules, inclusive of Multiple Award Schedules (MASs) and Federal Supply Schedules (FSS), and Indefinite Delivery Indefinite Quantity (IDIQ). (These contractual vehicles were identified previously in Chapter III of this thesis) However, they were not evaluating the FPDS data on the basis of the statutory definition. (Ref. 3)

According to the official government definition from the Small Business Act, a bundled contract is one that combines two or more contracts previously suitable for small businesses, that because of the combination precludes a small business from competing for it. The term "contract bundling" is only used when a small business is harmed by not being able to compete for a contract. (Ref. 3) When the combination of contracts does not harm a small business, it is considered to be a consolidated contract (Ref. 3).

The Eagle Eye report concludes that in FY 1999 large businesses received 67 percent of all federal procurement dollars and 74 percent of all bundled dollars. (Ref. 38) In addition, they stated that although small businesses dominated construction and non-research services, significant contract bundling occurred in these sectors during that timeframe. (Ref. 38) The report also mentions that DOD is the largest bundler of contracts.

However, as a result of direction from the Floyd D. Spence National Defense Authorization Act for fiscal year 2001, GAO reviewed the DOD prime contract database for

fiscal years 1997 through 2000 specifically to identify any construction contract bundling. (Ref. 42) They reviewed 26 contracts and identified five large contracts as limiting the ability of small businesses to compete for these contracts. (Ref. 42) The large contracts were also reviewed and approved by the SBA Procurement Center representative prior to award. Small businesses competed for the remaining 21 contracts and received contract awards worth millions. Therefore, GAO concluded that contract bundling was not limiting the ability of small businesses to obtain military construction contracts. (Ref. 42)

Although Eagle Eye publishers state in their report that significant contract bundling occurred to the detriment of small business during fiscal years 1992 through 2001, DOD did not capture specific contract bundling information in the 1990s through 2000. This is why Eagle Eye needed to create its own definition. (Ref. 38)

In conclusion, the main focus of the SBA Office of Advocacy regarding acquisition reform has been the negative impact of contract bundling on the small business contractor. (Ref. 34) In this researcher's opinion, they did not provide compelling evidence to prove or disprove that combining two or more contracts into one contract caused negative effects on small businesses, inclusive of WOSBs and SDBs.

Based on the Eagle Eye contract bundling report, this researcher was not able to identify direct statistical evidence that contract bundling negatively impacted small businesses, inclusive of WOSBs and SDBs. In fact, DOD records indicate that small business participation from

fiscal year 1992 through 2002 averaged 20.5 percent to 21.9 percent. (Ref. 43) Congressional records also document similar percentages for fiscal years 1998 through 2002. (Ref. 35) According to these statistics, there was neither a drastic reduction in the participation of small businesses nor a significant increase in their participation during these fiscal years.

## **2. The Perspective of Congress on the Effects of Acquisition Reform on SDBs and WOSBs**

Primarily because of contract bundling, and to assess a statistical effect of acquisition reform on small businesses, inclusive of WOSBs and SDBs, Congress focused on the years after the enactment of FASA (1994) and FARA (1996). This was because Congress believes that contract bundling accelerated after enactment of these two acquisition reform laws. (Ref. 35) For this reason the congressional Small Business Committee issued yearly Report Cards beginning in 2000 on each federal agency regarding their achievement of the congressionally-mandated small business goals. (Ref. 35) To reiterate those goals for DOD for purposes of this thesis, small businesses should receive at least 23 percent of total procurement dollars. WOSBs should receive at least five percent of total procurement dollars, and SDBs should receive at least five percent of total procurement dollars. (Ref. 35)

The three figures provided below present data from congressional records regarding DOD's achievement of yearly small business goals for fiscal years 1998 through 2002. These goal achievements pertain to prime contracts awarded to small businesses. The figures are a compilation of data included in the House Small Business Committee Democrats



2002, Scorecard III (Ref. 44) and 2003 Scorecard IV. (Ref. 35) Figure 1 is the overall small business goal achievement. Figure 2 is the WOSB goal achievement. Figure 3 is the SDB achievement.

<b>Year</b>	<b>Goal</b>	<b>(%)Tot</b>	<b>Prc \$</b>	<b>\$ to SB Goal Achievement (%)</b>
1998	22	113.1	23	20.89
1999	23	115.7	24.5	21.16
2000	23	126.2	27	21.41
2001	23	142.8	29.3	20.53
2002	23	155.2	32.9	21.17

Figure 1. Congressional Record of DOD Small Business Goal Achievement for Fiscal Years 1998 through 2002 (Dollars in Billions).

Figure 1 reflects, by fiscal year, the congressionally-mandated goal, total procurement dollars awarded, procurement dollars awarded to small businesses, and goal achievement percentage. In fiscal year 1998, small businesses received almost 21 percent of the total procurement dollars (\$113.1 billion) spent that year. In 1999 small businesses received 21.16 percent of the \$115.70 billion procurement dollars spent. Between 1999 and 2000 DOD total procurement dollars spent increased to \$126.2 billion, while the small business goal achievement increased to 21.41 percent. From 2000 to 2001, the procurement dollars spent increased to \$142.8 billion while the small business goal achievement decreased to 20.53 percent. Between 2001 and 2002, the procurement dollars spent increased to \$155.2 billion, and the goal achievement increased to 21.17 percent.

Year	Goal (%)	Tot Prc \$	WOSB \$	Goal Achievement (%)
1998	5	113.1	2.03	1.80
1999	5	115.7	2.22	1.92
2000	5	126.2	2.52	2.00
2001	5	142.8	3.11	2.18
2002	5	155.2	4.14	2.67

Figure 2. Congressional Record of DOD WOSB Goal Achievement for Fiscal Years 1998 through 2002 (Dollars in Billions).

Figure 2 shows, by fiscal year, the congressionally-mandated goal, total procurement dollars awarded to small businesses, total procurement dollars awarded to WOSBs, and goal achievement percentage. Between fiscal years 1998 and 1999, DOD WOSB goal achievement increased to 1.92 percent. Between 1999 and 2000, the goal achievement increased to 2.0 percent. From fiscal year 2000 to 2001, goal achievement increased to 2.18 percent and from fiscal year 2001 to 2002, goal achievement increased to 2.67 percent. These statistics reveal that although DOD has not yet met the yearly 5 percent goal, there has been steady improvement since fiscal year 1998. The improvement may be due to FASA legislating the 5 percent goal, because prior to FASA, no yearly goal was set for procurement dollar awards to WOSBs. (Ref. 29)

Year	Goal (%)	Tot Prc \$	SDB	\$ Goal Achievement (%)
1998	5	113.1	6.6	5.81
1999	5	115.7	6.9	5.93
2000	5	126.2	7	5.56
2001	5	142.8	4.78	3.32
2002	5	155.2	7.01	4.52

Figure 3. Congressional Record of SDB Goal Achievement for Fiscal Years 1998 through 2002 (Dollars in Billions).

Regarding SDB goal achievement, from fiscal year 1998 to 1999, goal achievement increased to 5.93 percent. From fiscal year 1999 to 2000, SDB goal achievement decreased to 5.56 percent. From 2000 to 2001, SDB goal achievement significantly decreased to 3.32 percent. However, the researcher found no DOD documented reason to explain this decline during that timeframe. From fiscal year 2001 to 2002, SDB goal achievement increased to 4.52 percent.

In "Scorecard IV, Federal Agencies: Closed to Small Business," June 25, 2003, the congressional Small Business Committee assigned letter grades A through F to agencies' (inclusive of DOD's) yearly performance in meeting their small business goals (Ref. 35). A was the top grade and F was a failing grade. The committee gave DOD an F for fiscal year 2002. Although DOD received A's for overall achievement of 92 percent of the small business goal, and met the SDB goal, they received an overall grade of F for failure to meet the 5 percent goal for WOSBs. Therefore, Congress considered DOD's small business goal achievement in 2002 to be a failure. (Ref. 35)

### **3. The General Accounting Office Report On Contract Bundling**

In 1999, Congress directed GAO to investigate the contract bundling issue for its possible negative impact on small businesses. The resultant report is "Small Businesses, Limited Information Available on Contract Bundling's Extent and Effects," GAO/GGD-00-82, March 2000. (Ref. 39) The report focused on fiscal years 1997 through 1999 and was critical of Eagle Eye's definition of contract bundling since they did not apply the statutory definition of contract bundling when they reviewed the FPDS data. (Ref. 39) The study looked at NASA (Johnson Space Center), the Department of Energy (Albuquerque Operations Office) and the Department of Defense (Wright-Patterson Air Force Base (WPAFB) cases of contract consolidations to determine the effect on small businesses. Although WPAFB reported 12 cases of contract consolidation, they only had complete data on five of the cases. In those cases, 15 contracts were consolidated into five contracts. They did not consider it to be bundling because small businesses were the prime contractors prior to and after consolidation. (Ref. 39)

However, this situation demonstrates that 10 contracts previously available to small businesses decreased to five contracts. In addition, total contract value of the pre-consolidation was \$115.7 million dollars. After consolidation, that total value was \$83 million. Because of the decrease in contracts and dollars awarded to small businesses, Congress concluded that combining contracts is detrimental to small businesses. (Ref. 35)

#### **4. The Perspective of DOD on the Effects of Acquisition Reform on Small Businesses, Inclusive of SDBs and WOSBs**

DOD believes that acquisition reform has helped small businesses, especially WOSBs (Ref. 36). Figures 4 through 6 present DOD statistics regarding small business procurement dollars awarded from fiscal years 1992 through 2002. (Ref. 43)

<b>Year</b>	<b>Goal (%)</b>	<b>Tot Pr \$</b>	<b>SDB \$</b>	<b>Goal Achievement (%)</b>
1992	5	117.2	5.2	4.4
1993	5	116	6.2	5.3
1994	5	112	6.1	5.5
1995	5	110	6.9	6.2
1996	5	109.5	6.9	6.3
1997	5	106.9	6.7	6.3
1998	5	109.7	6.5	6
1999	5	116.7	7	6
2000	5	122.4	7	5.7
2001	5	135.8	7.8	5.7
2002	5	157.9	9.06	5.8

Figure 4. DOD Prime Procurement Dollars Awarded to Small Disadvantaged Businesses for Fiscal Years 1992 through 2002 (Dollars in Billions)

Figure 4 shows, by fiscal year, the congressionally-mandated goal, total procurement dollars awarded, SDB dollars awarded, and goal achievement information. SDBs received 4.4 percent of total DOD prime awards in 1992 and 5.8 percent of total DOD prime awards in 2002. From a high percentage of 6.3 percent of prime awards in 1996 and 1997, that percentage decreased to a low of 5.7 percent of the \$135.8 prime contract dollars awarded in fiscal year 2001. Finally, although DOD total prime dollars increased by 22.1 billion, the percentage of procurement dollars awarded to

SDBs in fiscal year 2002 only increased to 5.8 from the 5.7 awarded in fiscal year 2001. This upward trend represents DOD improvement in this area according to DOD's records. (Ref. 43)

Year	Goal (%)	Tot Pr \$	WOSB\$	Goal Achievement (%)
1992		117.2	1.6	1.4
1993		116	1.7	1.5
1994		112	1.9	1.7
1995		110	2	1.8
1996	5	109.5	2	1.8
1997	5	106.9	1.8	1.7
1998	5	109.7	2	1.8
1999	5	116.7	2.3	1.9
2000	5	122.4	2.6	2.1
2001	5	135.8	3	2.2
2002	5	157.9	4.1	2.6

Figure 5. DOD Prime Procurement Dollars Awarded to Woman-Owned Small Businesses for Fiscal Years 1992 through 2002 (Dollars in Billions)

Figure 5 pertains to DOD WOSB prime procurement dollars awarded for fiscal years 1992 through 2002. In fiscal year 1992, prime contract dollars awarded to WOSBs was 1.4 percent of the total dollars awarded. The percentages awarded to WOSBs increased slightly from 1.5 percent in fiscal year 1993 to 1.8 percent in fiscal year 1995, although dollars awarded to primes decreased somewhat in those years. Beginning in fiscal year 1998, prime procurement dollars awarded to WOSBs began to steadily increase, from 1.7 in fiscal year 1997 to 2.6 in fiscal year 2002. Based on these numbers, acquisition reform since 1994 appears to be helping WOSBs win DOD contracts. (Ref. 43)

<b>Year</b>	<b>Goal (%)</b>	<b>Total Prc \$</b>	<b>SB \$</b>	<b>Goal Achievement (%)</b>
1992	22	117.2	24	20.5
1993	22	116	24.9	21.4
1994	22	112	24.8	22.1
1995	22	110	25.3	23
1996	22	109.5	25.4	23.2
1997	22	106.9	24.5	22.9
1998	23	109.7	23	21
1999	23	116.7	25.1	21.5
2000	23	122.4	26.9	21.9
2001	23	135.8	28.3	20.8
2002	23	157.9	33.3	21.2

Figure 6. DOD Prime Contract Procurement Dollars  
Awarded to Small Businesses for Fiscal Years 1992  
through 2002 (Dollars in Billions)

Figure 6 applies to overall small business prime procurement dollars awarded by DOD for fiscal years 1992 through 2002. It contains, by fiscal year, total prime procurement dollars and dollars awarded to small businesses. In fiscal year 1992, the DOD total prime procurement dollars awarded were 117.2 billion of which small businesses received 20.5 percent. From a high of 23.2 percent of 109.5 billion in procurement dollars awarded in fiscal year 1996, that percentage decreased to 20.8 percent in fiscal year 2001, although the total amount of prime procurement dollars increased from \$109.5 billion to \$135.8 billion. In fiscal year 2002, the prime dollars awarded were 157.9 billion, and the percentage awarded to small businesses increased to 21.2 percent. These statistics do not indicate a significant positive or negative impact on small businesses because of acquisition reform and/or contract bundling. (Ref. 43)

## **5. DOD'S Report on Contract Bundling**

As promised to the congressional Small Business Committee in 1999, DOD contracted with the Logistics Management Institute (LMI) to analyze whether or not DOD contract consolidation was creating a negative impact on small business contractors by preventing them from competing for DOD contracts. (Ref. 41)

LMI reviewed ten cases of significantly consolidated DOD contracts in 1999. They stated that of the 112.2 billion dollars in DOD purchases in fiscal year 1999, large businesses received 88.6 billion dollars, and small businesses received 23.6 billion dollars. (Ref. 41) In that fiscal year there were 5,760 large business firms, 18,581 small businesses, and 4,677 SDBs receiving purchases above the \$25,000 threshold. (Ref. 41)

LMI found three cases of contract bundling. One was a Navy contract and two were Air Force contracts. In all three cases, contracts were awarded to small and large businesses. After contract consolidation, small and large businesses became subcontractors involved with these contracts (Ref. 41).

In addition, prior to the ten cases of contract consolidation/contract bundling, small business prime contractors won nine out of the ten contracts. After the consolidation, small business contractors as prime contractors decreased to five out of ten. (Ref. 41)

The study also found that contracting agencies required proactive small business subcontracting goals when one of the consolidated contracts was awarded to a large business. (Ref. 41) Some contracting officers also made



subcontracting plans part of contract source selection criteria. They also included an award fee arrangement in contracts when large businesses met or exceeded small business goals. In other cases, the contracting officers unbundled consolidated requirements in order to make them available to small businesses (Ref. 41). This suggests that the contracting officer can play an important role in ensuring fair competition for small business contractors.

Finally, the study recommended that DOD develop a consistent method for performing a cost-benefit analysis in order to justify consolidating contracts. They said that this was needed in order to prevent incorrect consolidation, i.e., cases which would not provide DOD expected efficiency, and could cause loss of opportunities for small business contractors. (Ref. 41)

## **E. CONCLUSIONS**

### **1. Contract Bundling**

Statistically, the three contract bundling reports presented in this chapter did not prove nor disprove a significant positive or negative impact on DOD small businesses, inclusive of WOSBs or SDBs. However, this is possibly due to inconsistent methods of assessing contract bundling and incomplete data. For example, in the GAO study, WPAFB reported 12 cases of consolidated contracts but only had complete information on five of them. (Ref. 39)

However, enough concern was generated from these studies that closer review of large contracts is occurring. (Ref. 44) In fact, since fiscal year 2000, contract bundling information is captured on the DD Form 350 as well

as being incorporated into the FPDS. (Ref. 40) However, to date, DOD has not submitted a contract bundling report based on the collection of this data. (Ref. 45)

Because of the concern raised by the contract bundling issue, contracting officers must accomplish several tasks before awarding a bundled contract. They must conduct market research and justify in their determination and findings that contract bundling will provide measurable substantial benefits while meeting statutory and regulatory requirements. (Ref. 46) In addition, contracting officers must discuss their bundling strategy with SBA representatives. (Ref. 46)

## **2. DOD'S Performance Regarding Small Business Goal Achievement**

Although DOD did not meet the 23 percent goal during the timeframe studied for this thesis, dollars awarded to small businesses have increased yearly. (Ref. 43) DOD prime contract dollars awarded to SDBs remained consistent throughout the timeframe studied for this thesis. (Ref. 43) Regarding WOSBs, DOD has yet to meet the 5 percent goal mandated by FASA; however, there was steady improvement from 1998 through 2002. (Ref. 43) In fact, procurement dollars awarded via prime contracts to WOSBs steadily increased in the 1990s, particularly after 1996. (Ref. 43) Therefore, acquisition reform appears to have had a positive effect on WOSBs both in congressional and DOD data. (Ref. 35) and (Ref. 43)

## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **A. INTRODUCTION**

This chapter's purpose is two-fold. It presents conclusions and provides recommendations resulting from the findings in this study. The chapter answers the primary and secondary questions presented in Chapter I. It concludes with suggestions for further research into the effects of DOD acquisition reform on women-owned small businesses and small disadvantaged businesses.

### **B. ANSWERS TO RESEARCH QUESTIONS**

This study addressed the following primary and subsidiary research questions. Provided below are each question and a brief response.

#### **1. What are the Most Important Reform Initiatives DOD Has Undertaken Since the 1990s through 2002 to Improve Acquisition?**

As the DOD budget declined steadily from the late 1980s through 1997, DOD began to develop initiatives to improve its buying practices. The Section 800 panel report, discussed in Chapter II, identified over 600 statutes and approximately 300 laws to be repealed or changed to allow DOD to buy its goods and services more efficiently at a lower cost.

Former Secretary of Defense William Perry was a major force in reforming DOD acquisition practices in the 1990s. His important initiatives became a major part of DOD's acquisition philosophy in the 1990s. Those initiatives focused on three distinct areas: the establishment of a combined defense/commercial national industrial base in lieu of a separate defense industrial base, the abandonment

of military unique specification (MILSPECs) requirements, and the need for DOD to rely more heavily on the commercial marketplace to buy its goods and services.

The initiatives cited above resulted in key acquisition reform legislation in the 1990s.

DAWIA (1991) established an acquisition corps and the requirement for DOD to train and certify acquisition personnel within a tri-level system that includes mandatory educational requirements at each level. (Ref. 24)

FASA (1994) encourages DOD to acquire commercial items to meet its needs in lieu of military specification unique items. The law also elevated the threshold level for awarding contracts to small businesses from \$25,000 to \$100,000. In addition, FASA mandated a yearly goal of five percent of all procurement dollars to be awarded to WOSBs. Finally, FASA ushered in a new era of electronic commerce in order to lower the cost of federal procurement by reducing procurement cycle time and paperwork through the use of electronic media. (Ref. 29)

ITMRA (1995) mandated the streamlining of information technology acquisition by encouraging the procurement of Commercial off the Shelf (COTS) products instead of government unique products. (Ref. 30)

FARA (1995), also known as the Clinger-Cohen Act, incorporated ITMRA and introduced the term "efficient competition" into the acquisition arena. (Ref. 32) The law allows for the modification of the competition standards mandated by the Competition in Contracting Act (CICA)

(1984), by allowing the "use of procurement methods consistent with efficiency to fulfill the government's requirements in the most effective manner." (Ref. 31)

Finally, FAIRA (1995) requires all federal agencies to submit an annual list to the Director of Management and Budget of all of those activities performed by federal employees that could be performed by private industry. (Ref. 33)

## **2. What Types of Products and Services Do Small Businesses Provide to DOD?**

Small businesses inclusive of WOSBs and SDBs have provided DOD with numerous products and services for many years. Some of those products and services include computer equipment and related software, systems integration, communications services, Internet web services, accounting and management support services, fire and security systems, network design and support, facilities management services, and engineering services. In addition, they have also managed hazardous waste removal, provided research and development services and custodial services.

## **3. How Many SDBs and WOSBs Have Contracts with DOD?**

In fiscal year 2001 24,130 small business prime contractors, inclusive of WOSBs and SDBs, were performing on DOD contracts, and DOD awarded \$28.3 billion prime procurement dollars to those businesses in that year. (Ref. 36) and (Ref. 43) By fiscal year 2002, the number of DOD small business prime contractors, inclusive of WOSBs and SDBs, increased from 24,130, by 9,806, to 33,936. (Ref. 36) In that same fiscal year DOD awarded \$33.3 billion prime procurement dollars to small businesses, inclusive of WOSBs and SDBs. (Ref. 43)

**4. In What Ways Have These Businesses Been Helped by Acquisition Reform?**

Data from fiscal years 1992 through 2002 indicate that acquisition reform appears to have helped WOSBs more than SDBs. This is due to the statutory requirement for DOD to award at least five percent of total procurement dollars to WOSBs. During this period there was steady improvement in the percentage of prime procurement dollars awarded to WOSBs, an increase from 1.8 percent in 1998 to 2.6 percent in 2002. (Ref. 43) A causative factor for this improvement was probably the five percent procurement goal for WOSB established by FASA (1994). (Ref. 29)

**5. What are Some of the Barriers that Prevent These Types of Businesses from Obtaining DOD Contracts?**

Congress and the SBA Office of Advocacy and small business contractors maintain that the major barrier preventing these contractors from winning government contracts is contract bundling. Available statistics reviewed for this study did not prove definitively that contract bundling harmed small businesses during fiscal years 1992 through 2002. However, as noted here, those statistics are inconsistent and inadequate. In addition, small businesses continue to complain to Congress that the DOD contract bundling practice is preventing them from competing for government/DOD contracts.

As a result, Congress and the SBA Office of Advocacy view the acquisition reform practice of contract bundling to be the major barrier preventing small business contractors from competing for DOD contracts. The search for other barriers consistently leads to the contract bundling issue.

**6. What Assistance Currently Exists to Help Small Businesses Compete for DOD Contracts Either Directly as a Prime Contractor or as a Subcontractor?**

The small business contractor, inclusive of WOSBs and SDBs has numerous avenues of assistance available to help him or her compete fairly for federal contracts. For example, when DOD awards a contract over \$500,000 to a large business, that business must maintain an approved subcontracting plan that includes small business subcontractor procurement goals, inclusive of WOSBs and SDBs.

The small business contractor can contact the SBA Office of Advocacy for assistance, as well as Congress, with his or her complaints. Both houses of Congress have small business committees that review items specifically affecting small businesses.

In addition to the above, DOD has Small and Disadvantaged

Business Utilization (SADBU) offices not only at its headquarters but within the headquarters of each of the armed services and at their individual buying commands.

Currently, to help ensure that small business contractors are not adversely impacted by contract consolidation, DOD must perform a cost-benefit analysis in order to preclude certain kinds of consolidation.

**7. What is the Role of the Small Business Administration in Assisting Small Businesses to Win DOD Contracts?**

As a result of the Small Business Act, the Small Business Administration has existed since 1953. One of its

primary missions is to ensure that the nation's small business contractors have a fair opportunity to compete for government contracts.

SBA partners with DOD to assist in meeting DOD's yearly small business procurement goals. In addition, SBA places a representative at DOD buying commands for the purpose of reviewing procurements prior to contract award for potential impact on small businesses. The SBA representative also reviews the subcontracting plans of large DOD businesses for compliance with statutory small business goals.

#### **8. What is the Role of the Contracting Officer in This Arena?**

As a result of FASA, contracting officers must award contracts between \$2,501 and \$100,000 to small business contractors exclusively. The only legal justification the contracting officer has for not awarding these contracts to small businesses is if the officer cannot locate a suitable small business to perform a specific contractual effort.

DOD contracting officers also ensure that subcontracting plans contain approved small business goals which are then incorporated into contracts when a large business wins a large DOD contract.

As mentioned in the DOD contract bundling report by LMI, Inc., DOD contracting officers considered the potential negative effects of contract consolidation on small business contractors and tried to develop ways to negate those effects. For example, the contracting officers made subcontracting plans a part of source selection criteria for competitive procurements. In addition,



contracting officers incorporated award fee arrangements into large business contract awards in order to provide monetary incentives for large businesses to meet or exceed their small business subcontracting goals.

Regarding contract bundling, whenever a contract consolidation effort crosses the desk of a DOD contracting officer, that officer is now responsible for insuring that the small business contractor is not unfairly excluded from competing for the contract because of the consolidation.

Also, when appropriate, contracting officers can break out consolidated contracts into individual contracts in order to make them suitable for small business competition.

Based on information provided above, the contracting officer plays a major role in insuring fair contract competition for the small business contractor.

## **C. CONCLUSIONS**

Specific conclusions can be drawn based on the research and analysis provided herein. They can be applied not only to DOD procurement but to the broad spectrum of federal procurement as well.

### **1. Conclusion #1**

Small businesses, inclusive of WOSBs and SDBs, are not only vital to the American economy but to DOD as well.

Over 50 percent of the American industrial base consists of small businesses. Small businesses also provide over 50 percent of America's Gross Domestic Product (GDP). (Ref. 1)

Small business contractors have provided numerous goods and services to the military for many years. Examples of those products and services include computer equipment,

software, communications services, network design and support, software training, engineering services, accounting and management services, and facilities management.

Over 43 percent of the Pentagon renovation prime contractors are small business contractors. (Ref. 12) In fact, DOD relied heavily on those businesses to provide the rapid response necessary to repair and rebuild the Pentagon after the September 11, 2001 terrorist attack. (Ref. 12)

Foam Matrix, a small business located in Inglewood, California and founded as a surfboard company, developed strong, ultra-light repairable composite foam which became the main component in the replacement wings of the X-45 unmanned combat air vehicle. Because of this success, Foam Matrix will produce replacement parts for the C-17 military transport plane. (Ref. 12)

Other examples indicate the importance of WOSBs and SDBs to DOD sustainment. In February 2001, the Defense Information Systems Agency (DISA) awarded the largest small business set-aside contract in American history. Consequently, DOD will receive government-wide global fixed satellite service bandwidth along with related business, enterprise satellite-based services and software applications. Artel, Inc., a small disadvantaged business, and Arrowhead Space & Telecommunications, Inc., a woman-owned small disadvantaged business received two of the three contracts awarded under the set-aside. (Ref. 16)

A WOSB firm, Kelly Logistics Support Systems, provided the Air Force with a desktop simulator using commercial equipment that significantly improved user acceptance of voice recognition technologies for flight line maintenance applications. (Ref. 18)

Finally, by fiscal year 2002, DOD contracted with 33,936 prime small business contractors. (Ref. 36) Therefore, the small business contractor is not only vital to America's economy but to DOD's sustainment as well.

## **2. Conclusion #2**

FASA (1994) and FARA (1996) are the two Acquisition reform laws enacted in the 1990s appearing to have the most impact on small businesses, inclusive of WOSBs and SDBs.

Among the major acquisition reform laws enacted during this timeframe, e.g., DAWIA, FASA, ITMRA, FARA, and FAIRA, the SBA Office of Advocacy and Congress state that FASA and FARA have had the most significant impact on small businesses. That impact has been negative, causing contractors to lose their ability to win government contracts because of the procurement practice previously identified as contract bundling. FASA and FARA resulted in bundling by encouraging the acquisition community to consolidate contracts. In many cases, the consolidation of those contracts minimized the ability of the small business contractor to compete for them because they became too large both in scope and dollar value.

DOD does not agree with the assessments of the SBA Office of Advocacy or Congress regarding negative impacts on small businesses resulting from those acquisition reforms. In fact, DOD states that acquisition reforms have

positively impacted small businesses, inclusive of WOSBs and SDBs. DOD supports its statement by providing evidence that small business contractors performing on DOD contracts increased by 9,806, from 24,130 in fiscal year 2001, to 33,936 in fiscal year 2002. (Ref. 36) DOD also states that contracts worth \$59 billion were awarded to small businesses, inclusive of WOSBs and SDBs, in fiscal year 2002. (Ref. 36)

### **3. Conclusion #3**

Data on contract bundling is inconsistent and fails to provide clear concise statistical proof of a negative impact on DOD small businesses, inclusive of WOSBs and SDBs.

The contract bundling reports analyzed for this study provided little statistical proof of either a significant positive or negative effect on DOD small businesses. The SBA Office of Advocacy, Congress, and DOD assessment methods were inconsistent and insufficient.

Eagle Eye Publishers, the company employed by the SBA Office of Advocacy to study the effects of contract bundling on the small business contractor, developed its own contract bundling definition instead of using the official one cited in the Small Business Act. As a result, the study did not conclusively prove that contract bundling occurred.

In the GAO contract bundling study the Air Force reported 12 cases of contract consolidation but only provided complete data on five of those cases. Of those five cases, 15 contracts were consolidated into five contracts. Since small businesses were the prime

contractors before and after contract consolidation, GAO did not consider the consolidation to be contract bundling. However, this data showed a loss of 10 contracts previously available to small businesses. (Ref. 39)

Finally, the DOD contract bundling report compiled by LMI, Inc. reviewed procurement data for 1999 only. (Ref. 41) The LMI report did not analyze enough DOD data in order to conduct a fair assessment of the impact of contract consolidation on the DOD small business contractor.

#### **4. Conclusion #4**

DOD statistics show neither a significant positive nor negative impact on small businesses, inclusive of WOSBs and SDBs, resulting from acquisition reform.

Although the percentage of prime contract procurement dollars awarded to SDBs decreased during fiscal years 1996 (6.3 percent) through 2000 (5.7 percent), DOD still met its annual SDB five percent goal during those years. (Ref. 43) In fiscal year 2001 the percentage of procurement dollars awarded remained at 5.7 percent, and in fiscal year 2002 that percentage rose to 5.8 percent. (Ref. 43)

Although the information for fiscal years 1996 through 2000 reflected a downward trend in the percentage of procurement dollars awarded to SDBs, that trend did not provide proof of a significant negative impact on SDBs resulting directly from acquisition reform in those years. In fact, as stated above, by fiscal year 2002 the SDB award percentage rose to 5.8 percent of total DOD procurement dollars awarded that year. (Ref. 43)

The percentage of DOD prime procurement dollars awarded to WOSBs during fiscal years 1992 through 2002 ranged from 1.4 percent to 2.6 percent respectively. (Ref. 43) Although the statistics reflect continual improvement during this timeframe, the statistics do not reflect a significant positive impact on WOSBs during that period. If DOD had met the five percent WOSB goal during those years, that would have been a major accomplishment.

Finally, overall DOD prime contract award statistics for fiscal years 1992 through 2002 show that small businesses, inclusive of WOSBs and SDBs, consistently received 20 and to 22 percent of total DOD prime procurement dollars. (Ref. 43) This percentage range does not conclusively show either a negative or positive impact on small businesses resulting from acquisition reform occurring during that timeframe.

## **5. Conclusion #5**

DOD statistics regarding the five percent WOSB procurement goal legislated by FASA (1994) indicate a positive impact on WOSBs which could possibly be attributed to DOD acquisition reform.

Although DOD did not meet the FASA mandated WOSB five percent procurement goal throughout the timeframe used in this study, there was consistent improvement from fiscal year 1998 through fiscal year 2002. (Ref. 43) For example, prior to FASA implementation, the percentage of prime procurement dollars awarded to WOSBs ranged from 1.4 percent in fiscal year 1992 to 1.8 percent in fiscal year 1996. (Ref. 43) After FASA implementation, the percentage of DOD prime procurement dollars awarded to WOSBs decreased

to 1.7 percent in only one fiscal year (1997). (Ref. 43) After that fiscal year the percentage consistently increased from 1998 (1.8 percent) to 2.6 percent in fiscal year 2002. (Ref. 43) Statistically, this data indicates a positive relationship between FASA and the percentage of DOD prime procurement dollars awarded to WOSBs. More than likely, the FASA legislated WOSB five percent procurement goal increased DOD's attention and focus on WOSB procurement which in turn enabled more women to successfully compete for and win DOD contracts. (Ref. 29)

#### **D. RECOMMENDATIONS**

Four recommendations are provided as a result of the research and analysis presented in this study. The recommendations are applicable to the broad scope of federal procurement as well as to DOD procurement.

##### **1. Recommendation #1**

The Government, inclusive of DOD, must develop consistent reporting mechanisms to accurately assess the impact of the acquisition reform practice identified as contract bundling.

Research for this study found disparities in contract bundling information among the SBA Office of Advocacy, Congress, and DOD regarding the effects of contract bundling on small businesses, inclusive of WOSBs and SDBs. The disparities made it difficult to evaluate the impact of contract bundling on these businesses objectively.

In order to accurately assess contract bundling effects on small business contractors, first and foremost, parties should reach consensus as to what contract bundling is and what it is not. The SBA Office of Advocacy,

Congress, and DOD reviewed contract bundling data and information from different perspectives. This would have been acceptable if their reviews had been based on the official contract bundling data definition and if they had reviewed data from the same timeframe.

DOD's contract bundling report covered one year (1999) only. This was certainly not enough information for DOD to accurately measure the impact of contract bundling on its small businesses, inclusive of WOSBs and SDBs. Accordingly, DOD needs to analyze procurement data spanning several fiscal years in order to more accurately measure whether or not small business contractors have been negatively affected by contract bundling.

## **2. Recommendation #2**

DOD should compile and publish a contract bundling data report based on a review and analysis of GSA Multiple Award Schedules, Federal Supply Schedules, Indefinite Delivery Indefinite Quantity (IDIQ), and specific contract bundling data contained in the Federal Procurement Data System (FPDS) for fiscal years 2000 through 2003.

DOD should now be able to analyze and report on contract bundling using the FPDS database because it has been reporting that type of information to the FPDS since fiscal year 2000. The FPDS DOD data review and report should include an analysis of information documenting DOD's purchases of goods and services under GSA Multiple Award Schedules (MAS) and Federal Supply Schedules (FSS) to determine whether or not contract bundling occurred through DOD use of these contractual vehicles.



Finally, the DOD FPDS analysis should closely review and analyze information regarding Indefinite Delivery Indefinite Quantity (IDIQ) contract awards. The purpose of that review would be to insure that large DOD requirements placed on these contracts because of consolidation were accomplished using the most cost effective and efficient method for DOD to acquire a particular good or service at that time and not just for the convenience of the buying command.

### **3. Recommendation #3**

DOD needs to be more consistent in capturing WOSB and SDB subcontractor procurement data.

While conducting research for this study, the author noticed that there was some information regarding an increase in the amount of DOD subcontracting efforts awarded to WOSBs and SDBs in the 1990s through 2002. However, during that timeframe DOD focused primarily on documenting small business prime contract awards and not on documenting subcontracting awards. It is possible that DOD performance in meeting small business procurement goals was better than indicated because of its subcontracting efforts during fiscal years 1992 through 2002. However, because DOD did not accurately and consistently capture that data in those years, it is impossible to assess its performance in this area. Therefore, DOD needs more accurate and consistent mechanisms for reporting small business subcontracting efforts in order to receive the full credit it deserves for achieving small business goals.

### **4. Recommendation #4**

DOD should conduct a specific study of the effects of acquisition reform on WOSBs and SDBs.

Scant information exists to indicate either significant positive or negative effects of DOD acquisition reform on WOSBs or SDBs, other than inconsistent information regarding contract bundling. In order to respond accurately to Congress and to the SBA Office of Advocacy about its yearly small business goal achievements, DOD needs to develop a checklist. It should include, at a minimum, information on DOD increased reliance on the commercial marketplace to buy its goods and services and the requirement for DOD contracting officers to award procurements between \$2,501 to \$100,000 exclusively to small businesses. It can then use this checklist to develop metrics for measuring the effects of acquisition reform on WOSBs and SDBs. Once DOD develops the checklist and associated metrics, it can then select a specific timeframe such as fiscal years 1998 through 2003 for its analysis. If DOD performs this type of analysis, it might then be able to proactively develop and implement a plan to mitigate negative acquisition reform effects on WOSBs and SDBs.

#### **E. SUGGESTIONS FOR FURTHER RESEARCH**

The researcher suggests two specific areas for further research as a result of this study. First, DOD needs to continue to closely monitor the contract consolidation issue. DOD must do this in order to be aware of its potential negative impact on small business contractors and therefore on America's economy. Although the statistics reviewed for this study failed to prove significant harm to the small business contractor, inclusive of WOSBs and SDBs as a result of contract consolidation, there were definite indications that this practice is causing harm to these contractors.

Secondly, DOD should research subcontracting data from the 1990s to 2002 to determine whether or not that information would have reflected a more accurate account of DOD's performance regarding its small business goals, inclusive of WOSBs and SDBs, during that timeframe. This research is necessary in order to fully understand the impact (positive or negative) of acquisition reform on the small business contractor.

In conclusion, until all of the procurement data regarding dollars awarded to small business contractors in either their role as a DOD prime contractor or subcontractor is captured, a comprehensive statistical study regarding the effects of acquisition reform on the small business contractor, inclusive of WOSBs and SDBs, cannot be completed. DOD should receive credit from the SBA Office of Advocacy and Congress for its small business subcontracting efforts as a way of helping it to meet its yearly small business goals. In order to accomplish that, DOD needs to find a better way of documenting that information.

#### **F. THESIS CONCLUSION**

The percentage of DOD prime procurement dollars awarded to small businesses, inclusive of WOSBs and SDBs, during fiscal years 1992 through 2002 consistently ranged from 20 percent to 22 percent. (Ref. 43) These statistics indicated neither significant negative nor positive effects of acquisition reform occurring during that timeframe. However, there were some indicators presented in the study that showed that the effects brought about by acquisition

reform practices such as contract bundling were and are negatively impacting the ability of small businesses to win federal contracts.

An analysis of DOD procurement statistics for fiscal years 1992 through 2002 indicated that WOSBs were the small business contractor group obtaining the greatest benefit from DOD acquisition reform during those years. However, although DOD improved in this area through fiscal year 2002, it did not meet the five percent goal in any of the fiscal years of this study.

As of fiscal year 2003, DOD still had not met the WOSB five percent goal. Current research indicates that businesses owned by women are among the fastest growing segment of the American business economy and they are involved in all facets of the business world. (Ref. 20) This suggests that DOD should be able to eventually meet the five percent goal.

In conclusion, statistical proof of specific effects of DOD acquisition reform on WOSBs and SDBs remains elusive. To date there has been no organized, centralized process established to not only identify the effects but to accurately measure them as well. Therefore, the net impact of DOD acquisition reform on small businesses, inclusive of WOSBs and SDBs, remains unclear.

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